農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

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Exhibit 1: 1Q14 economic indicators

YoY% or otherwise specified	1Q'14	2013
GDP	7.4	7.7
CPI	2.3	2.6
PPI	(2.0)	(1.7)
Exports	(3.4)	7.9
Imports	1.6	4.3
Trade Balance (US$/bn)	16.6	230.3
FAI (YTD%)	17.6	20.6
Industrial production	8.7	9.9
Retail Sales	12.0	14.3
M2	12.1	13.8
New loans (RMB/bn)	3,014.5	8,203.5

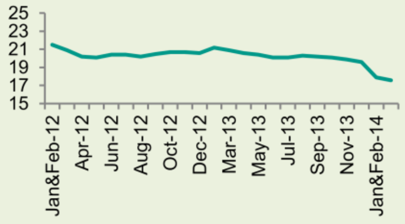
Source(s): Bloomberg, ABCI Securities

Exhibit 2: March economic indicators

YoY% or otherwise specified	Mar'14	Jan-Feb'14
CPI	2.4	2.3
PPI	(2.3)	(1.8)
Exports	(6.6)	(1.6)
Imports	(11.3)	10.0
Trade Balance (US$/bn)	7.7	8.9
FAI (YTD%)	17.6	17.9
Industrial production	8.8	8.6
Retail Sales	12.2	11.8
M2	12.1	13.3
New loans (RMB/bn)	1,050	1,964.5

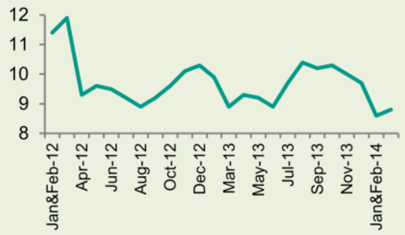
Source(s): Bloomberg, ABCI Securities

Exhibit 3: FAI (YTD YoY %)



Source(s): Bloomberg, ABCI Securities

Exhibit 4: Industrial production (YoY %)



Source(s): Bloomberg, ABCI Securities

Growth moderated in 1Q14 – a positive sign nonetheless

China's 1Q14 GDP grew by 7.4% YoY. The figure was slightly lower than the government's target of 7.5% YoY but still exceeded market expectation (consensus: 7.3% YoY). Other economic data suggest uneven developments in the economic segments. While trade and FAI weakened, retail sales and industrial production went strong. We believe, as long as the government is committed to accelerating the implementation of reform measures, domestic growth would advance steadily.

FAI faltered in March. YTD growth of FAI was 17.6% YoY in March, which was lower than market expectation (consensus: 18% YoY) and previous reading (2M14: 17.9% YoY). This is mainly caused by the government's efforts to reduce redundant investments and overcapacity. Also contributing to the slowdown was the languishing momentum in real estate FAI, which grew only by 16.8% YoY. However, the government's new investment programs in 5 provinces and the initiatives to accelerate project approval, as announced earlier in April this year, would help boost FAI later in the year.

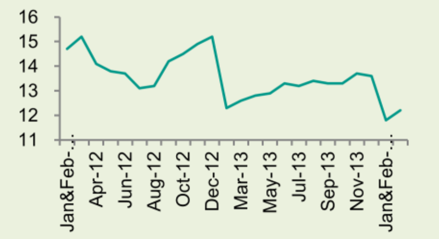
Industrial production improved slightly. In March, industrial production expanded by 8.8% YoY, up from the 8.6% YoY growth previously. Resumption of overall manufacturing activities after the holiday and improvements in most product categories were the major drivers. In particular, the value-added growth of "Computer, Communication Equipment and Other Electronic Equipment" went up significantly by 15.3% YoY. We believe that industrial production would advance further as the business environment turns more favorable in the coming months.

Retail sales improved expectedly. Retail sales in March grew 12.2% YoY. As expected, normalization of consumption growth was seen in most product categories. Catering services went up by 10.2% YoY, its first double-digit growth since 2013; catering services of enterprises above designated size grew 4.2% YoY, its first positive growth since 2013. The data suggest private consumption is now substantial enough to offset contraction resulted from the government's fiscal consolidation and clampdown on extravagant spending among government officials. Thus, we expect retail sales to become one of the major economic drivers in 2014.

Market surprised by external trade decline. Export and import growth in March retreated 6.6% YoY and 11.3% YoY, while trade balance was US$ 7.7bn. The decline was partly caused by the high bases in 2013, but it also reflects that demand was more or less softening. Yet, we believe the absolute values of export and import would continue to increase on an MoM basis because domestic demand and external ones from major trade partners would stay strong, especially when the holiday effect seen earlier this year will no longer come into play.

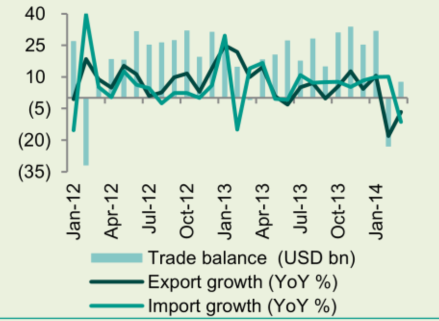
CPI rebounded while PPI dipped. CPI increased by 2.4% YoY and PPI decreased by 2.3% YoY in March. The relatively low CPI reading was a result of the tepid growth in the economy, the government's

Exhibit 5: Retail sales (YoY %)



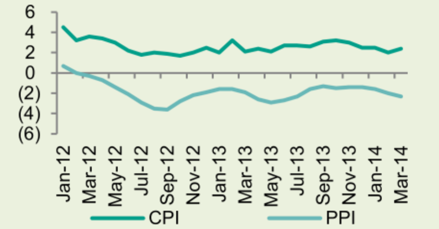
Source(s): Bloomberg, ABCI Securities

Exhibit 6: External trade



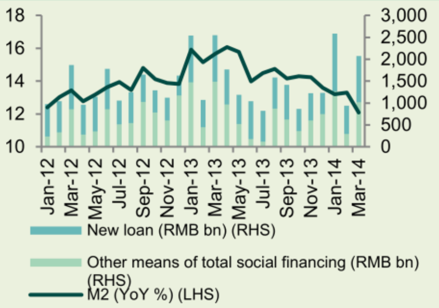
Source(s): Bloomberg, ABCI Securities

Exhibit 7: CPI & PPI (YoY %)



Source(s): Bloomberg, ABCI Securities

Exhibit 8: New loans and M2 growth



Source(s): Bloomberg, ABCI Securities

overall policy stance, and the tightened monetary condition. In our view, the low CPI would leave more room for the government to maneuver economic policies when necessary. As for the PPI, decreased manufacturing activities and input prices at low levels prolonged the decline. While a major turnaround in PPI is unlikely in the short term, we expect the index to improve gradually over time.

Monetary data reflected PBOC's prudent stance. New loans and M2 growth were RMB 1050bn and 12.1% YoY in March. On the one hand, the impressive loan data signals that credit could be growing faster than expected, and the recent withdrawal of liquidity from the market by PBOC may continue in the near future. On the other hand, the decrease in M2 shows that despite the growing credit, circulation of liquidity was slowed by the tightening measures. Also noteworthy is that trust loan in total social financing declined on year in the past 3 months. We believe that the changes observed were driven by the government's efforts to manage shadow banking risks. We expect new loans to return to normal levels after 1Q14, but M2 growth is likely to be determined by PBOC's future actions.

China Economic Indicators

	2013											2014		
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Real GDP (YoY%)	---	7.7	---	---	7.5	---	---	7.8	---	---	7.7	---	---	7.4
Export Growth (YoY%)	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)
Import Growth (YoY%)	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)
Trade Balance (USD/bn)	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(22.99)	7.7
Retail Sales Growth (YoY%)	12.3*	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2
Industrial Production (YoY%)	9.9*	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8
PMI - Manufacturing (%)	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3
PMI - Non-manufacturing (%)	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5
FAI(YTD) (YoY%)	21.2*	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6
CPI (YoY%)	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4
PPI (YoY%)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)
M2(YoY%)	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1
New Lending (RMB/bn)	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1320	644.5	1050

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	16,262.56	1.47	15.28
S&P 500	1,842.98	1.50	17.01
NASDAQ	4,034.16	0.86	34.70
MSCI US	1,762.20	1.48	17.33
Europe			
FTSE 100	6,562.97	0.02	17.19
DAX	9,244.60	(0.76)	17.69
CAC40	4,381.64	0.36	26.03
IBEX 35	10,206.30	0.01	18.60
FTSE MIB	21,220.21	0.10	N/A
Stoxx 600	328.93	0.05	20.39
MSCI UK	1,929.98	(0.25)	16.94
MSCI France	121.64	(0.61)	25.27
MSCI Germany	124.88	(1.55)	17.53
MSCI Italy	60.14	(1.49)	N/A
Asia			
NIKKEI 225	14,417.68	3.28	19.58
S&P/ASX 200	5,420.32	(0.15)	17.37
HSI	22,696.01	(1.34)	10.64
HSCEI	10,035.96	(1.88)	7.36
CSI300	2,232.53	(1.68)	10.34
SSE Composite	2,105.12	(1.19)	10.45
SZSE Composite	1,085.06	(0.28)	19.85
MSCI China	59.69	(1.89)	9.21
MSCI Hong Kong	12,417.12	(1.07)	12.44
MSCI Japan	699.52	0.17	13.86

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	104.77	0.99	252,361
ICE Brent Oil	USD/bbl	110.07	2.55	98,063
NYMEX Natural Gas	USD/MMBtu	4.57	(1.02)	124,440
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	72.95	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	1,813.50	(1.87)	71,939
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,852.00	(1.70)	53,143
CMX Copper Active	USD/lb.	6,545.00	(1.86)	17,073
LME Copper 3- mth Rolling Fwd.	USD/MT	6,541.00	(1.93)	50,339
TSI CFR China Iron Ore Fines Index[3]	USD	117.10	0.17	N/A
Precious Metals				
CMX Gold	USD/T. oz	1,303.50	(1.18)	126,695
CMX Silver	USD/T. oz	19.58	(1.83)	52,909
NYMEX Platinum	USD/T. oz	1,440.30	(1.52)	7,672
Agricultural Products				
CBOT Corn	USD/bu	508.00	0.69	141,349
CBOT Wheat	USD/bu	710.50	6.32	59,754
NYB-ICE Sugar	USD/lb.	17.54	0.46	63,712
CBOT Soybeans	USD/bu.	1,506.00	4.06	85,405

Bond Yields & Key Rates

	Yield (%)	Chg. WTD
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.75	0.00
US Treasury (1 Mth)	0.0203	(0.50)
US Treasury (5 Yr)	1.6348	5.91
US Treasury (10 Yr)	2.6499	2.52
Japan 10-Yr Gov. Bond	0.6100	0.50
China 10-Yr Gov. Bond	4.4100	(13.0)
ECB Rate (Refinancing)	0.25	0.00
1-Month LIBOR	0.1520	(0.02)
3 Month LIBOR	0.2279	0.14
O/N SHIBOR	2.2980	(45.2)
1-mth SHIBOR	4.0850	(12.4)
3-mth HIBOR	0.3757	0.29
Corporate Bonds	(Moody's)	
Aaa	4.22	1.00
Baa	4.87	1.00

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3840	1.6791	0.9361	102.30	0.8793	6.2220	7.7542	6.2525
Chg. WTD (%)	(0.32)	0.35	(0.38)	(0.66)	(0.36)	(0.19)	(0.02)	(0.26)

Note:

1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price

Disclosures

Analyst Certification

We, Lam Chiu Kei, Banny, and PAN Hongxing, Paul, being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company (ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company (ies) covered in this report.

Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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